WHEN CAPITALISM BECOMES A GLOBAL CASINO WHAT SHOULD WE DO??

A MODEST PROPOSAL**

By John Raines (Temple University), with

Patricia Kolbe and Daniel Jacobs (Temple University)

INTRODUCTION

Capitalism has always been about making money, but until recently that mostly meant making things in factories or harvesting things from fields that others would need and would buy. But in recent years that has dramatically changed. The vast proportion of international financial transactions has become purely "fictional"—money using its money to make nothing except more money.

The statistics I am about to cite to support this claim are quite astonishing, indeed so staggering as to invite incredulity. Therefore I need to

** A paper presented to The Society of Christian Ethics/The Society of Jewish Ethics/The Society for the Study of Muslim Ethics; January 5, 2012, Washington D.C.

ask you to stay with my argument past the initial shock. I will depend upon the statistical work done by the French economist Francois Morin, who is also a member of the Governing Board of The Bank of France. In his 2006 book entitled *The New Wall Of Money* he admits that his findings are so startling as to be of "a vertigo producing nature." He speaks of the recent financialization of the world economy and "the capacity of finance to crush, with its huge weight, the real economy." That is the problem Morin is trying to document: a new global casino that threatens the financial base of the real economy where every day we humans try to find work in order to live.

Here is the size of the money package I am talking about. What happens if we compare the total US federal expenditures in 2002 with the total of exchanges in the exotic financial products called derivatives in the same year? The reason I am using figures from 2002 is the fact that Morin had those figures in hand as he wrote and published his book in 2006. In 2002 our total federal expenditures (both on and off-budget) was $2.01 trillion. That same year, transactions in derivatives were $699 trillion—more than three hundred times as much money as the total federal expenditures in that year.[i]

An even more dramatic comparison is to contrast the total *global* Gross National Product in 2002 (combining all 199 nation-states of the world)—to compare that with the total international financial transactions, which included speculations in commodity futures, currency exchange rates and other derivatives and exotic financial products. The global Gross National Product in 2002 was $32.4 trillion. Now compare that to the over $1,122 trillion in international financial transactions in that same year. Notice that what Morin does is somewhat unique in his field. He does not measure *the value* of the financial products in trade at the end of any given reporting period, products which in the meantime could and most certainly were traded innumerable times. Instead he measures what he calls the "circulation of liquidities," "the churn"—the size of the money package in the rotations of exchanges, or more simply "the transaction." Morin pictures his way of measuring with this metaphor. One can, he says, "measure the volume of water in a reservoir or the volume of water which has passed through the reservoir during a given period." Morin is doing the latter, and he admits that the results "can give one a case of vertigo."

Here is his table of the global financial transactions for 2002.

"The World Economic Sphere in 2002 in $trillions":

1.	Transactions in Derivative Products	$699.0 trillion
2.	Currency Exchange Transactions	$384.4 trillion
3.	Purchase of Financial Titles i.e. stocks and bonds	$ 39.3 trillion
4.	Transactions in Goods and Services	$ 32.5 trillion[ii]

What the table discloses is that the ratio of money invested in the real economy ($32.5 trillion) compared to money making money and only money in the fictional economy ($1,122.7 trillion) was 1 to 35—35 times more money embedded in speculative transactions as compared with the "goods and services" circulating in the total global real economies. Notice also that stocks and bonds, thought to be the signature activity of global finance, are in fact only a small percentage of global financial transactions!

However strange or even preposterous these statistics seem, it is interesting to note that in Europe Morin's statistics have not been criticized but instead have entered into conversations concerning the need for a corrective push-back against the speculative frenzy of the past twenty years. For example

President Sarkozy of France in a speech in January 2010 before the 40th World Economic Forum in Davos, Switzerland said:

"This crisis is not just a global crisis. It is not a crisis *in* globalization. This crisis is a crisis *of* globalization. Globalization gave rise to a world in which everything was given to financial capital and almost nothing to labor, in which the entrepreneur gave way to the speculator, in which those who live on unearned income left the workers far behind, in which the use of leverage, to an unreasonable disproportionate extent, created a form of capitalism in which taking risks with other people's money was the norm, allowing quick and easy profits but all too often without creating either prosperity or jobs."[iii] One could wish that those words were spoken by President Obama! But the truth is that Sarkozy speaks for a gathering storm of concern in Europe, but a concern given little voice or visibility on this side of the pond.

But how is that 1 to 35 ratio between the real economy and the speculative economy, how is that possible given the reality that in that same year of 2002 the total amount, for example, of hedge fund assets was less than $1 trillion? How could that less than $1 trillion add up to that astonishing $699 trillion in derivative transactions that Morin reports? The answer is twofold.

First, hedge funds play an important part but are still only a fraction of the players in the global casino, the rest of whom can be found within what's called "the shadow banking system". These are financial institutions that act like banks but are not legally defined as banks and thus operate outside of federal banking regulations. [iv] That story is complex and I have chosen to detail the hedge fund story instead because it clearly illustrates what has happened in recent years in global finance.

The second part to the question of how $1 trillion in hedge fund assets in 2002 lead to a significant proportion of the $699 trillion in derivative transactions reported by Morin is found in that word "transaction," or what Morin calls "the flux" or "rate of rotation." For example, one portfolio in a hedge fund might be worth, let us say, $10 million. The fund manager might turn over that $10 million portfolio two or three times a week. Moreover, the investment is likely to be highly leveraged, sometimes at levels of $1 to $40. In other words, for every dollar put up by a fund manager, up to $40 of credit can be used to increase the amount of the investment without the fund needing to commit more of its own capital. This vastly increases profits when things go well, but also vastly exacerbates losses when things go badly. It thus adds significantly to systemic risk, since it is not the manager or the fund itself that is

ultimately on the hook when losses grow catastrophic but often the investors on the other side of the trade, the ones that either lent them the money or entered into the derivative contract with them. This has led in the recent past to government intervention (using ultimately our tax dollars) to save those investors, such as banks, that are considered "too big to fail."

In answer to my initial question, given the high turnover rate of portfolios and the steep leveraging of those investments--all that, when added to other instruments in the shadow banking system, could and did add up to the $699 trillion in derivatives that Morin reports.

What induces managers to move a portfolio so often or leverage their investments so significantly? It is the size of his or her pay check, because that paycheck results usually from a 20 percent cut of the total yearly profits of the fund they are managing, and the greater risk of the investment the greater potential profit to the manager (and to the investor). Moreover, this is what the investor insists upon—quarterly glowing results or they find a different hedge fund.

This in turn has negative effects upon the real economy where employees work and live, as CEOs in response to insistent profit demands by investors

transfer risks to individual workers in terms of health insurance costs, retirement benefits, etc.. The result is to transfer security and wealth to the top and burden individual workers with increased daily exposure and expense. The recession, of course, makes the bargaining position of employees even more precarious, increasing the relationships of domination in the workplace. Speaking of the recession, who suffers when the economy tanks and there is a significant loss?—not the financial managers but the investors, as well as society at large. Profits are privatized while losses are socialized (managers get rich and the rest of us pay the price).

Moreover, a goodly portion of that desired thing called profits, whether of managers or of investors, are then taxed in the USA not as "income" with its 35 percent maximum marginal rate but as "capital gains" and its 15 percent rate. Also, most hedge funds are registered off-shore in places like the Cayman Islands and so escape, in part, the grasp of the IRS. Put together, the pay incentives, with a tax system that rewards speculation in the "fictional" economy as contrasted to the "real economy" where profits and wages get counted as "income"—put these two together and you have the formula for the rapidly expanding inequalities both of income and of wealth that has come to dominate the international political economy over the past thirty years.[v]

Why increased inequality? Because it is money making money from money without passing through factories or fields, without creating jobs or paychecks, although the few paychecks this speculation does produce are extraordinarily generous, creating and sustaining a new tiny international elite. It is money making money removed from the common life where the rest of us live our daily lives. It is money removed from investing in and creating an expanding productive capacity, a productive capacity that could, but now will not, employ the youth of the next generation in anything but low-paid jobs as workers of the world compete with one another in a global real economy increasingly deprived of the predictable and sustained investment it needs.[vi] In addition, this type of investment often hurts the real economy in other ways, for example driving up commodity prices and manipulating currency exchange rates.

It is this new reality that I will explore in the remainder of this paper and interrogate that reality from the moral perspective of our Western religious traditions. Those traditions claim that private property (property removed from "the commons") is morally legitimate only in so far as it serves and enhances "the common good." But money made in what I call this new casino capitalism

is money cut loose from "the common good." It is an investment strategy that radically privatizes profits, isolating those profits from human work done "in the commons" of the Creation we all share.

This, then, will be my argument. By the standards of our Western religious traditions this practice is to be morally condemned and therefore changed, returning by way of taxation some of those privatized profits to the purposes of the common life of the human community. That new Financial Transaction Tax (FTT) imposed every time a wager is made in the casino which global capitalism has largely become is where I am headed.[vii] And it needs to be a tax imposed world-wide—with definitive punishments for rogue nations or players who try to escape the system. I am not alone in this idea. Others interested in a transaction tax include prominent economists such as Paul Krugman and Joseph Stiglitz, as well as financial heavy hitters like George Soros and Bill Gates. They have argued for such a tax both on moral grounds but also for purely financial reasons--to assert a degree of control over spiraling market volatility. It also includes important political actors besides Sarkozy of France, namely Merkel of Germany and heads of government in Italy, Spain, Belgium and Austria. In fact, the European Council has issued a detailed proposal for instituting a financial transaction tax which they have presented to the G-20

nations several times over the past few years. The relative lack of discussion on such a tax in our own country is both disturbing and instructive. The exception which proves the rule is the legislative proposal by Senator Harkins and Congressman DeFazio that would impose such a tax, legislation which for the past three years has been DOA in Washington.[viii]

PART ONE—THE RISE OF CASINO CAPITALISM

The first person to use the word "casino" when referring to capitalism was the British economist and wealthy investor John Maynard Keynes in his book entitled *General Theory of Employment, Interest and Money (1936)*. Here is what Keynes said back then:

> "It is by no means always the case that speculation predominates over enterprise... Speculations may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.

Then Keynes concludes:

> The introduction of a substantial Government transfer tax on all transactions might prove the most serviceable reform available, with

a view to mitigating the predominance of speculation over enterprise."

Seventy years later, we here in the United States and in the world find ourselves in precisely that condition, with the real economy the bubble in a "whirlpool of speculation."

It is true, of course, that speculation is nothing new. It has been here ever since our ancient ancestors sought to trade the surplus of their labor and gain advantage in that trade. What is new today is the striking proportions of speculation in relationship to what Keynes called "enterprise". This extreme imbalance and the rapid and volatile nature of the global financial turnover is a phenomenon that would become full-blown only in the 1990s and accelerated even more so in the early years of the new millennium.

The early rise of this new casino capitalism can be traced to President Nixon's decision in 1973 to sever the value of the dollar from the gold standard and let the dollar rise or fall according to global currency markets. This spelled the end of the Bretton Woods agreement that steered global capitalism through the recovery after World War II with its strong limitation on the international circulation of capital. And then in 1999 came the repeal in this country of the

Glass-Steagall Act with the subsequent dismantling of market regulations throughout the world. The doors to the global casino were thrown wide open!

To illustrate this rise of casino capitalism let us follow the history of just one of the financial innovations that helped fuel this recent and rapid expansion. I will be talking about HEDGE FUNDS, those funds that can cost you several millions of dollars merely to get on the team.[ix]

At the beginning it all seemed to be quite reasonable. Very wealthy folks didn't need to take risks trying to expand dramatically their wealth but, instead, needed to protect their principal against dramatic losses. How better to do that than to build a "hedge" (there's the origin of the word) against such losses. How? Invest prudently to expand the portfolio, but at the same time engage in a program of "selling short" to protect against significant losses. What is "selling short"? Even as you bet on what you think may be winners in the market you also bet on what you think are overpriced stocks or bonds and likely to be losers. Here is how it works. You borrow shares you expect to decline from a broker and then sell them on the open market. When the predicted decline happens, you buy back the lower priced shares and pay off the broker. The

profit is the difference between the original (inflated) price and the new lower price of repurchased shares.

Whether the market goes up or the market goes down, you win. Your wealth is "hedged," protected against sudden swings in the market. All that made a great deal of sense for high-end investors.

Hedge funds first appeared in 1949, but it wasn't until the 1990s that the growth of those funds really took off. Looking back, the reason appears quite simple. Hedge funds were not available to the average investor but only to those investors deemed highly sophisticated. Such investors were thought to know enough to protect their own interests without significant federal regulation. That gave hedge fund managers tremendous flexibility in terms of investment options.

Soon hedge fund managers began to play a far riskier game. Because they claim a 20% salary benefit on increases in the total value of the fund they must justify that salary by significantly exceeding the return on more traditional investment vehicles, such as mutual funds, where management fees range in the small percentages. Lightly regulated at best, this induces hedge fund managers to engage in a significant degree of speculation, with riskier

investments that pay significantly higher yields, and almost always with investments inflated by pronounced leveraging.

As previously stated, in the early days of hedge funds the majority of investors were high and ultra-high net worth investors, but in the past 10 years major institutional clients have taken a larger and larger share—clients such as public and private pensions (including my own fund TIAA-CREF), and sovereign wealth funds (i.e., state-owned investment funds), and investors handling foundations and endowments. This shift to institutional investment has been dramatic, with assets invested in hedge funds increasing exponentially from $125 billion just 10 years ago to $1.1 trillion today—doubling assets each year for ten years with Institutional investors now accounting for between 44-55 percent of all hedge fund assets!

Hedge fund managers suddenly had a vastly expanded pool to invest and salary inducements to take significant risks in using the global casino to pursue the prize of dramatically expanding their personal wealth. And that's how it happened. That's how the game got wild. What started out as a reasonable proposal to "hedge" against personal or family loss of principal became in ten years a high-stakes game which could and did continue to grow and evolve

without significant regulation at either national or international levels. That was the game-plan that would result in The Great Recession, where Wall Street got rescued while Main Street was left to run on empty. And so the poor became sharply more poor, and those in the middle who thought they were safe found the foundations of their hopes shaken and shattered. And the wealthy?...the wealthy got generous tax breaks.

Why did well-meaning institutional investors (and we can assume that many of them were well-meaning)—why did pension fund managers and managers of foundation and college endowment funds, why did they so dramatically shift to hedge funds and their exotic financial products? Here is a fact that most of us do not know; and it is an important fact. It is more risky in terms of anticipated returns to invest in the real economy, where things are made and then must be sold, than it is to invest in the fictional economy. The speed and liquidity of the financial transactions make them more desirable for hedge fund managers and their investors. Why speed and liquidity? because it is easier to shed a loser. If you've put your investment in factories and machinery, you simply can't get the investment back that quickly if the market goes sour. Avoiding the real economy makes risk more manageable. For

responsible institutional investors it is a matter of prudent judgment to abandon "the commons."

That reality is the fact we must address and change. We must change the formula by which what is considered "prudent" is conceived and calculated. Part of that change will be what I have called the Financial Transaction Tax because it will change how after-tax profits are calculated. But before I go there I must first make my case for the ethical priority of the common good over against individual advantage, including my own advantage as a beneficiary of a generous TIAA-CREF retirement account.

PART TWO—AQUINAS AND LOCKE ON THE USES AND MORAL LIMITS OF PRIVATE PROPERTY

It seems such archaic language to talk about "the common good" or to speak of the state from which I come as "the Commonwealth of Pennsylvania." Can anything relevant to today's financial and moral debacle be retrieved from those ancient discourses? I will look at two of those now long gone but still influential giants of moral philosophy Thomas Aquinas and John Locke (the British Tory and Liberal) who used what seemed to be a more secular way of speaking.

The central text in the reflections of Aquinas on private property and its proper uses is found in *Summa Theologiae* II-II, question. 66, article 2 entitled "Whether It Is Lawful For A Man To Possess A Thing As His Own". Time and again in subsequent papal documents it is this text to which succeeding Popes return in order to position themselves on these issues.[x] That text deserves our attention. It begins in a way typical of St. Thomas:

"Objection I. It would seem unlawful for a man to possess a thing as his own. For whatever is contrary to the natural law is unlawful. Now according to the natural law all things are common property, and the possession of property is contrary to the community of goods. Therefore it is unlawful for any man to appropriate any external thing to himself."

Thomas then goes on to state his own opposing position, saying:

"I answer that, Two things are competent to man in respect to exterior things. One is the power to procure and dispense them, and in this regard it is lawful for man to possess property. Moreover this is necessary to human life for three reasons. First, because every man is more careful to procure what is for himself alone than that which is common to many or to all; since each one would shirk the labor and leave to another that which concerns the community,

as happens where there is a great number of servants. Secondly, because human affairs are conducted in a more orderly fashion if each man is charged with taking care of some particular thing himself, whereas there would be confusion if everyone had to look after any one thing indeterminately. Thirdly, because a more peaceful state is insured to man if each one is contented with his own."

But in a reflection on usury that is soon to follow Thomas added this important restriction on the uses of that private property he called money (and we call capital).

"Now money was invented chiefly for the purpose of exchange, and consequently the proper and principal use of money is its consumption or alienation whereby it is sunk in exchange."[xi]

That is to say that the whole purpose of the private property called money is to facilitate exchange, to escape the limitations of exchange when exchange is confined to the face-to-face barter of perishables. That use of money, for Aquinas, is rational. But the use of money in usury, that is "to take payment for the use of money lent," that for Thomas is irrational in that it requires the borrower (and the collateral required) to bear all the risk, putting lender and

borrower into sharply differing status. When, for Thomas money should draw us together in a dense system of interdependence, not separate us into "the safe" and those "put at risk."

Why? because the whole purpose of that private property used in exchange which Thomas called money, and we will call "capital," is to increase the common good that results from the industrious and orderly exchange of the surplus of our labor. Money is not first of all or last of all something private, but something that enhances exchange, facilitates the mutual dependence of each upon the labor of others. How different this conception of money and its moral purposes is, and how distant it is from the dreams and practices of hedge fund managers and their investors today!

The line of argument that Aquinas advanced can be further developed by referring to what I consider one of the most insightful statements about the nature and purpose of politics in the western literature. I am talking about his *Treatise on Kingship* . In sharp contrast to Augustine, but without saying so, Thomas follows Aristotle. We humans are by our created nature, not by our fallen nature, political animals. Politics is an extension of our created nature,

not essentially a correction to the failure of that social nature. I quote Aquinas at some length.

"To be sure, the light of reason is placed by nature in every man, to guide him in his acts toward his end. Wherefore, if man were intended to live alone, as many animals do, he would require no other guide to his end. Each man would be a king unto himself, under God, the highest King, inasmuch as he would direct himself in his acts by the light of reason given him from on high." But Thomas denies that we are in our fundamental nature, a nature which persists after The Fall, such isolated individual selves calculating our own self-interests. Instead he says:

"Yet it is natural for man, more than for any other animal, to be a social and political animal, to live in a group. This is clearly a necessity of man's nature. For all other animals, nature has prepared food, hair as a covering, teeth, horns, claws as means of defense, or at least speed in flight, while man alone was made without any natural provisions for these things. Instead of all these, man was endowed with reason by the use of which he could procure all these things for himself by the work of his hands. Now, one man alone is not able to procure them all for himself, for one man could not sufficiently provide

for life unassisted. It is therefore natural that man should live in the society of many."[xii]

Our human life is naturally and necessarily LIFE TOGETHER. And the symbol of that is our work, or more precisely our being embedded every day in the division of labor, which is not only the only way we can survive but more importantly the only way we can live well. Work is not essentially something individual or private; it is social, a good that becomes good only because it is shared. Work should, and does when properly ordered, embed us as individuals in exchange, which is a common good because it is something done in common that draws us together and together enhances our well being. Work, in short, when properly ordered, teaches us gratitude.

What we learn from St. Thomas and those in subsequent generations who learned from him is this. Work is something social and historical. Each generation sits down to what more recently Pope John Paul II called "the workbench of humanity." It is a workbench prepared for us by previous generations once seated at that bench we now temporarily occupy. Yes, work is what in today's world we do "to make a living." But it is far more than that; it is the unique human species' way of doing our living together over time,

constantly transforming our material dwelling and thus preparing the way for those who will follow and replace us when it becomes their turn, in the great procession, to take their place at the workbench of the human future.

I turn next to another of those ancient voices whose moral imagination came to dominate future generations, including the moral imagination of those who wrote our own national Constitution. I refer to John Locke and his *Second Treatise of Government* (published anonymously in 1690 in order to protect the author from persecution). In the famous fifth chapter of that treatise titled "Of Property" Locke begins with the same question as did Thomas Aquinas, asking how can it be justified for any individual to remove something from the commons which God gave to all in Creation?

Locke answers (para. 34): "God gave the world to man in common, but since he gave it to them for their benefit, and the greatest conveniences of life they were capable to draw from it, it cannot be supposed he meant it should always remain common and uncultivated. He gave it to the use of the industrious and rational, not to the fancy or covetousness of the quarrelsome and contentious." Thus far, Locke almost exactly parallels the reasoning of

Thomas—private ownership encourages the industrious use of one's labor and by its rightful possession quiets the quarrelsome.

But what about that private property called money? Here Locke has a new vision, a vision that will set loose the most powerful revolution in the way of human dwelling on planet earth yet recorded. That is the revolution of what today we call "democratic capitalism." Here are the words that separate Locke from the traditional consciousness of Aquinas (para. 48/49): "I ask, what would a man value ten thousand, or an hundred thousand acres of excellent land, ready cultivated, and well stocked too with cattle, in the middle of the inland parts of America, where he had no hopes of commerce with other parts of the world, to draw money to him by the sale of the product? It would not be worth the enclosing." Money in exchange changes the vision of the possible. It gives birth to ambition. Locke continues: "In the beginning all the world was America, and more so than that is now, for no such thing as money was any where known. Find out something that hath the use and value of money amongst his neighbors, you shall see the same man will begin presently to enlarge his possessions."

For Locke, the gift of money used in exchange is not simply that it is an instrument that draws us together into the mutuality of the division of labor, but something far more dramatic. Money used in trade gives birth to a new passion; he calls it "the desire for having more." And that desire, for Locke, separates the indolent from the ambitious. Locke argues (para. 36): "this I dare boldly affirm, that the same rule of property, that every man should have as much as he could make use of, would hold still in the world, without straitening anybody; since there is land enough in the world to suffice double the inhabitants, had not the invention of money, and the tacit agreement of men to put a value on it, introduced (by consent) larger possessions, and a right to them." Inequality of possessions is not the result of greed but the result of an ambition set loose by the invention of money. The world of human work would soon respond to a different master than that "common good" celebrated by Aquinas. The new world just being born would respond to a new vision. The gift of money was for Locke, at its heart, a cultural revolution—a conscience once rendered quiet by *the dream of the same* now made restless by *the dream of more*.

Yes, this separates Locke from Aquinas and makes of Locke the prophet of a revolution that still feeds and fuels the world of human work. But notice, for

Locke just as it was for Aquinas, it is human work at work making and doing things others would need and buy. It is work that produces jobs and paychecks, what the economist Keynes called "enterprise" as distinct from casino speculations. Capitalism has in these recent years abandoned and betrayed its own founding vision. It has radically privatized the money game. And we need to change that. A Financial Transaction Tax begins to do that.

PART THREE—IMPOSING A GLOBAL FINANCIAL TRANSACTION TAX

A tax on financial transactions makes more costly and therefore less desirable the high turnover rates of speculative investments. On the other hand, it makes long-term investments in the real economy more inviting. Costs count. The higher costs imposed by a transaction tax would change the formula for prudent investments. And that would change the behavior of big time institutional investors such as pension fund managers.

For those of us relatively new to this discussion, and I am one such, it may come as a surprise to learn that as recently as the early 1990s 38 nations were imposing one form or another of a transaction tax. These included sizeable markets such as Great Britain, Japan, Germany, France and Italy. Even the United States gave it a thought when, in response to the market crash in 1987,

House Speaker Jim Wright proposed such a tax. At the time that conversation went nowhere, and soon other countries first reduced and finally eliminated the tax because they thought, quite correctly, that removing the tax would make their domestic market more competitive in attracting foreign financial flows. But recently the conversation has revived and on September 28, 2011 the European Union proposed a financial transaction tax that would, in the words of Tax Commissioner Semeta, "cover financial transactions involving stocks, bonds, derivatives, structured products and other types of trades." The European Union proposal has received strong support from major players, including Germany, France, Spain and Austria. But it has also been criticized and rejected by the two biggest players, the United Kingdom and the United States who claim that such a tax would lead to profound distortions in the market. Namely, investors would seek to escape the tax or at least diminish its impact by seeking refuge in financial products either not taxed at all or products that circulated at a lower rotation rate—for example, bonds rather than equities. The obvious answer to this critique is to nuance the tax, adjusting it to reflect the market forces impinging on different products.

Concerning the indexing of certain products that will be taxed but at rates that reflect their market condition, the American economists Robert

Pollin, Dean Barker and Marc Schaberg, in a sophisticated defense of a transaction tax, worked out the mechanics of that adjustment. Their proposals were guided by three principles: "that coverage of the tax be as broad as possible, spanning all domestic market segments and foreign as well as domestic traders; that the tax rate be equivalent, based on the market value of assets being traded; and that the tax should also reflect existing differences in transaction costs in various markets."[xiii] I reference that important paper without dealing with it in detail because the authors confine their policy recommendations to the United States. As previously indicated, my proposal moves toward a global transaction tax imposed and policed by a new international agency.

Of course there are some international transactions that are not speculative and in fact help the real economy by facilitating commerce. Included in these products are residential mortgages, legitimate business loans, spot currency transactions which enable producers and consumers from different countries to engage in trade, and commodity futures used for commercial purposes, such as airlines or farmers purchasing future options to buy oil and thereby protect themselves from the volatility in commodity prices caused by the speculators. However, and this is the crucial point, the

divergence between the amount of transactions that serve to facilitate commerce and encourage enterprise and those that are purely speculative has accelerated over the past twenty years, and at this point is increasing exponentially.

Government financial leaders in Great Britain and in the United States have also counseled that imposing a transaction tax, given the desperate condition of the global economy, is poorly timed. But the whole weight of my argument rests upon the reality that global investments do not pour into the real economy but instead into global speculations. Taxing that does not hurt the real economy but gives new incentives to invest in that economy.

Let me continue this discussion by admitting what I will not attempt to do in this final and rather brief section of my paper. I will confine my analysis to the issue of taxation and will not address the even more important but also treacherously more difficult question of new international regulations.[xiv] Still, raising the issue of a new tax already puts financial markets on notice. It signals the great banks and trading companies of New York and London that they are not masters without masters, that they too are subject to democratic rule!

Having said that, what I will also not address is the issue of political possibility. Of course it will be politics that determine in the end the future of the tax policies I propose. And given the power of New York banks and trading companies, which would suffer direct bottom line hits, it can be assumed the political path forward in this country will be laced with powerful landmines. Nevertheless, the politically impossible begins to become possible if a robust public discussion can be generated. That discussion is the purpose of my paper.

What I plan to do to bring my argument to a more prompt conclusion is to *outline* problem areas I see as having to be addressed as this conversation goes forward. The problems seem to me to be five. First, the tax should be global and not national or regional (as has been practiced up to this point). In the end, that is the only way to avoid a capital strike against one nation or region. Second, the tax should *not* be imposed unilaterally on all financial products equally, irrespective of their particular market conditions. Rather, a nuanced imposition of the tax would avoid the market instability caused by traders seeking tax advantages. (The paper referenced above by Pollin, et. al. addresses this task in detail.)

Third, the revenues from this transaction tax need to be divided in such a way as to reflect national market rates of activity, with nations with larger markets getting a larger portion of tax revenues. But, and this is crucial, there should be a significant portion of the total revenues reserved for a new global investment fund that would address the inequalities of the North/South divide and provide funds for debt relief and for development projects in nutrition, health and education for the poorer nations of the world.

Fourth is the institutional question. What agency is to supervise, impose and police this tax? Should it be a new United Nations instrument? Should it be a mandate of a fundamentally transformed World Trade Organization, with the power of the wealthy nations brought under international discipline? Realistically, this whole process may have to begin at the national and regional level. If started with the economically more powerful nations it could be a step-by-step process and probably avoid massive capital migrations, precisely because the markets involved would be the more powerful. The European Union is already leading the way in such discussions and plans.[xv]

Fifth and finally, what should be the percentage of this new tax? The conversation in the European Union and amongst the G-20 nations is focusing on the rate of .1 percent on stocks and bonds and .01 percent on derivatives. There is, however, a crucial difference in what the European Union proposes and what I propose. They anticipate a modest $100 billion in tax revenue per year and I project something far more dramatic. The reasons are several. First, I propose to tax derivatives, which if you include currency transaction accounts for 94 percent of international transactions, at a significantly higher rate of .05 percent. Also the European Union projection does not include many of the major players, such as The United States, Great Britain, Japan, Hong Kong and Singapore.

To make an accurate estimate of what I propose I need to update Morin's 2002 figures with the figures from 2010. They too are so astonishing as to take our breath away. In 2010 derivative products traded at $2,703.5 trillion, Currency Exchange at $675 trillion, stocks and bonds at $78 trillion, and goods and services (the real economy) at $62.5 trillion. The ratio of speculative transactions compared to transactions in goods and services has expanded from 1 to 35 in 2002 to 1 to 50 in 2010. For every dollar spent in the real economy 50

dollars were dedicated to speculation. A .05 percent tax imposed upon derivatives and currency exchanges ($3378.5 trillion annually), even assuming a sharp drop in those transactions because of the tax, would produce at least $2.4 trillion annually, or $12 trillion over a five year period. Of that $12 trillion perhaps $3 trillion should be reserved to address issues of global poverty and the other $9 trillion returned to participating nations according to their market activity as suggested above.

We should note that the prospect of those kinds of funds going to nations such as our own introduces a promising political possibility. Washington has been marching in lockstep with Wall Street up to now. But the prospect of trillions of new dollars entering the U.S. treasury each year is enticing. It would solve our debt crisis without stripping the social support networks. Perhaps a wedge would be driven between the interests of politicians and the hopes of the speculators.

Now a final word about that subtitle: "A Modest Proposal." I am very much aware that my proposed Financial Transaction Tax is at best "modest." It does not address the far more important structural questions of global regulatory reform. Nor does it address the issue of the political resistance of

the two biggest "players" in the global casino—the United States and Great Britain. And most fundamentally it does not address the influence of concentrated wealth on the political processes of our own nation and the disastrous Supreme Court decisions that in the Buckley and Citizens United cases pronounced, absurdly, that money is speech and that corporations are persons, and therefore the uses of the money of each is protected under the First Amendment. However absurd that construction, it now remains the law of the land and has flooded the political process with wealth that, in effect, robs the meaning of our vote from the rest of us who are not wealthy. No, my suggestion as to a Financial Transaction Tax remains modest indeed.

Yet even at that, does that modest proposal still not sound naïve?! Yes, of course it does. But creative naivete begins with the refusal to accept the given world and its power relations as finished and final. Indeed, the naivete may lie with the so-called realists who cannot conceive of a future that in any fundamental way departs from the recent past. But that is the wisdom of the old and the comfortable. And, as now is abundantly clear, our world is full of the young and the uncomfortable. Life has a way of overcoming those who are afraid and stand in the way of life. It has happened before. We should remember that the revolution announced by John Locke seemed, at the time,

similarly implausible. Significant change always appears to be impossible, except in retrospect when it seems inevitable.

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[i] Concerning derivatives, it has recently been noted that "a segment of the market has fast become its most important one: derivatives...it has grown around 24 percent per year in the last decade." Quoted from "The Global Derivatives Market, And Introduction" by Deutsche Borse Group, April 2008.

[ii] Quoted from Francois Morin, *Le Nouveau Mur De L'Argent: essai sur La Finance Globalisee* (Seul, 2006), from pp. 48/49. For these statistics Morin cites the following sources: FMI (Key Financial Centers), also La Banque Mondiale (Quick Query), also BRI and La Bangue Central Europeenne (Target), and The Federal Reserve (Fedwire).

More recently the European Commission in its report on "Taxation of the Financial Sector" has quoted the figure on international transactions from the Bank of International Settlement for the year 2010 as 1.2 quadrillion Euros. An International Monetary Fund report for the same year quotes the figures in dollars at $780 trillion in derivatives and $440 trillion in currency exchanges. So, despite the global recession and sovereign debt crisis the traveling circus with it elephants and clowns and honking horns continues.

(See p. 12 cited at >http://ec.europa.eu/taxation_customs/taxation/other_sector/index_en.htm<. Also see IMF document "Taxing Financial Transactions: An Assessment of Administrative Feasability—Aug. 1, 2011, Working Paper No.11/185).

[iii] Quoted from the pre-delivery embargoed text.

[iv] Put briefly, the "shadow banking system," sometimes called the "parallel banking system," is the portion of financial institutions that act in the capacity of banks without being regulated as banks. At its peak, shadow banking accounted for $20 trillion in assets (it shrunk after the crisis, and was $15 trillion last year), which makes it as big if not bigger than the traditional banking sector. Commercial banks hold deposits and originate loans, subject to reserve requirements and FDIC insurance premiums, while shadow banks do the same without reserve requirements and federal insurance. Though this arbitrage to get around the "expensive" regulated banking system seemed to work well for decades, the extent of the risk inherent in it only became obvious in the recent financial crisis. Virtually the entire financial crisis took place in the shadow banking system, precipitated by the now-infamous collateralized debt obligations.

[v] For statistics on global inequalities see Branko Milanovic, *Worlds Apart: Measuring International and Global Inequality* (Princeton Un. Press, 2005) and more recently Chrystia Freeland, "The Rise of the New Ruling Class, How the Global Elite is Leaving You Behind, " *The Atlantic*, January/February 2011.

[vi] A recent Vatican document refers to this in saying: "In material goods markets, natural factors and productive capacity as well as labour in all of its many forms set quantitative limits by determining relationships of costs and prices which, under certain conditions, permit an efficient allocation of available resources....[But] since the 1990s, we have seen that money and credit instruments worldwide have grown more rapidly than the accumulation of wealth in the economy, even adjusting for inflation. From this came the formation of pockets of excessive liquidity and speculative bubbles which later turned into a series of solvency and confidence crises that have spread and followed one another over the years." (Quoted from "Towards Reforming the International Financial and

Monetary Systems in the Context of Global Public Authority" issued by the Pontifical Council for Justice and Peace on 10/25/2011, >http://www.radiovaticana.org/en1/Articolo.asp?c=532223<

[vii] In formal literature this tax is referred to as the Securities Transaction Excise Tax (STET). I will refer to it by the more simple term "transaction tax."

[viii] The Vatican, in the communication cited above, also argues for such a tax but with almost no detail as to its construction. They argue that "taxation measures on financial transactions with fair rates modulated in proportion to the complexity of operations, especially those made on the 'secondary' market...would be very useful in promoting global development and sustainability according to principles of social justice and solidarity."

[ix] In the following analysis I am heavily dependent upon a paper prepared for me in a graduate Independent Study course in religion at Temple University in the summer of 2011. Patricia Kolbe, a licensed stock broker and PhD student in religious studies, wrote a paper entitled "De-Mystifying Hedge Funds and Considering their Global Impact." Much of what I have to say in this section of my paper is dependent upon her research.

[x] One thinks of Pope Leo XIII in *Rerum Novarum* (1891) or Pope Pius XI in *Quadragesima anno* (1931) and more recently, and a text I will refer to later, Pope John Paul II in *Laborem Exercens* (1981).

[xi] S.T. II-II, q. 78, a. 1

[xii] *On Kingship*, sections 4 and 5.

[xiii] The quote is found on page 6 of their paper entitled "Securities Transaction Taxes for U.S. Financial Markets," in Working Paper Series, Number 20, The Political Economy Research Institute, University of Massachusetts Amherst, revised October 2002.

[xiv] In the conclusion to his book mentioned above Francois Morin does make important suggestions as to changes in the regulatory apparatus.

[xv] The Vatican has added its voice to those who call for a new Global Authority to administer the now global economy, especially the financial and credit economy.